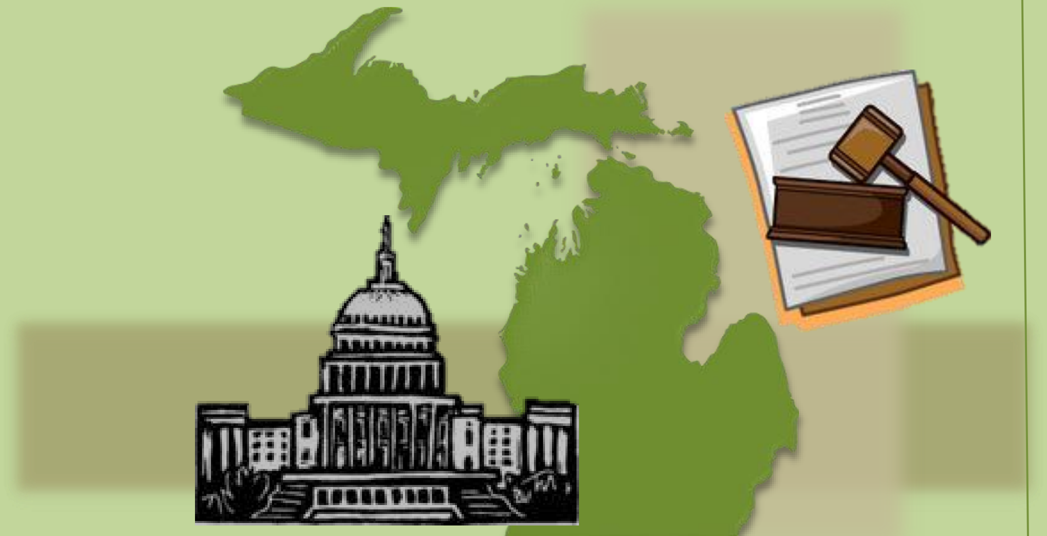
Informing the Debate

Michigan Applied Public Policy Brief

Open the Black Box: The Conflict between the Top-Down and Bottom-Up Implementation of PA 436 in MI



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Michigan Applied Public Policy Briefs

Informing the Debate

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Open the Black Box: The Conflict between the Top-Down and Bottom-Up Implementation of PA 436 in Michigan

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Executive Summary

PA 436 of 2012, "the Local Financial Stability and Choice Act" in Michigan, authorizes the state government to intervene in local fiscal affairs by appointing emergency managers. Although it is designed to provide assistance to local governments and ultimately safeguard the public welfare of local residents, the Act has been controversial due to the unilateral power of emergency managers. To investigate the challenges and obstacles for the implementation of PA 436, especially emergency management, we began by learning the insights of state and local officials regarding the policy. We interviewed both state officials from the Michigan Department of Treasury and local officials from municipalities that either are currently or were previously under state intervention. Coupled with data collected from financial statements and budgets of local governments, we find conflicts in the different approaches taken by state and local officials for the policy implementation.

State officials took a top-down approach to the intervention, manifested by centralized decision-making and additional authority vested in emergency managers. The goal of state intervention is to balance municipal budgets during implementation, and major policy actions taken by emergency managers were to reduce spending by renegotiating contracts, lay off staff, cut wages and benefits, and privatize services. Some local officials viewed centralized decision-making as efficient and the unilateral power of emergency managers as additional legitimacy that enables local governments to adopt revenue-raising actions that would not have been approved without the emergency managers' effort. However, more local officials criticized emergency management as a system lack of transparency and accountability.

Compared to state officials, local officials viewed the intervention with a bottom-up perspective. They were more concerned about local residents' needs and demands, as well as long-term sustainable economic development. They identified weakened economic base in their municipalities, such as population loss, change of job market structure, declined property values, as causes for fiscal distress, and expected the emergency managers to provide assistance for sustainable community development. Although a number of officials acknowledged the legitimacy and necessity of state intervention, they were disappointed by the focus on cutting spending cut rather than revenue enhancement. As key stakeholders and policy actors in the intervention process, they also shared frustration about the lack of trust placed by the state government.

Based on the findings, we recommend a synthesis between the top-down and the bottom-up approach to enhance effectiveness of the state intervention. Specifically:

1) Recognize underlying socioeconomic factors that contribute to local fiscal distress;

2) Define the objective of PA 436 more broadly to include not only balancing the budget but also sustainable community development.

3) Take an inclusive approach in implementation by incorporating inputs from local communities, including local officials and residents. Emergency managers should collaborate and engage with local officials and bureaucrats.

I. Introduction

In a federalist system, although decentralized governments are efficient tools of public service provision that enhance responsiveness to local needs and demands, such institutional design can also result in problems when decentralized governments run deficits and ask for bailouts by central governments (Oates 1972; 2008). In the United States, many states have made laws to intervene local affairs as a way to safeguard the welfare of local constituents when local governments fail to do so. Although created with the intent of addressing local fiscal distress, intervention is not always welcomed by local governments that cherish their autonomy, and local resistance can be counterproductive to the state's effort for addressing local distress. In this study, we focus on the intervention policy enacted in the State of Michigan, emergency financial management, and examine its effectiveness by understanding the dynamics between state appointed emergency managers and local officials.

Over time, there are four laws pertaining to emergency financial management in Michigan. First, Public Act (PA) 101 of 1988, titled the "Local Government Fiscal Responsibility Act," was the first policy that allowed the state to appoint emergency financial managers to address local fiscal affairs, and was issued as part of a larger legislative package meant to provide assistance to Wayne County government. PA 101 was replaced just two years later by PA 72 of 1990, which gave the State ability to address school district financial difficulties and remained in place for over two decades (Scorsone, 2012). Under PA 72, a Financial Review Team would be appointed by the Governor determined that there was a serious financial problem in a local government. The conditions that could trigger a financial review by the state included the failure to pay creditors, the failure to make timely pension contributions, and payless paydays. Certain officials and local residents could also request a preliminary review under the Act. A major complaint regarding PA 72 was the lenient ways in which it was capable of designating fiscal distress, with only 12 municipalities/school districts coming under purview of the law from 1990-2012.

To strengthen the state authority in local fiscal affairs during intervention, Public Act 4, titled "the Local Government and School District Fiscal Accountability Act," was passed in the Michigan Legislature and signed by the Governor in 2011 and effectively replaced PA 72 of 1990. According to the Governor's office, the main goal of the legislation was to aid local units of government by providing State oversight and support, mainly in the form of an Emergency Manager (State of Michigan Department of Treasury, 2011). PA 4 gave the State more oversight in local municipal finances. It allows for more State intervention from an earlier time than Public Act 72, due to the changes in financial distress indicators. In PA 4 the determinations of fiscal distress are more numerous, which would in theory give the state more indication of a potentially distressed municipality as compared to PA 72. Further, local residents could apply for a State review if they acquired a certain amount of signatures. The main hope of this aspect was helping municipalities and school districts avoid the near catastrophic levels which were necessary to provoke intervention under PA 72. The act also, controversially, gave emergency managers much more power to make broad and sweeping changes to the municipality he/she was charged with reforming, including: terminating city contracts, making decisions in school districts in regards to academics, and dissolving local government bodies.

Shortly after PA 4 of 2011 was signed into law, various progressive coalitions began to collect signatures to have a referendum on the law via a state ballot initiative (Oosting 2014). The signature drive was successful, and the referendum resulted in a repeal of the Act. The state legislature quickly took action in response to the repeal. During the 'lame-duck' legislative period, both the State House and Senate passed PA 436 of 2012, "the Local Financial Stability and Choice Act." Under PA 436, the Department of Treasury implements the act, with input from the Governor. The Department of Treasury is responsible for reviewing municipalities in local distress and determining whether fiscal stress may exist within municipalities. The Governor is then responsible for determining if fiscal distress actually exists (different from the possibility of distress existing), appointing an emergency manager (in some cases), and over-seeing the process. Finally, the Governor signs off on the exit of municipalities (or school boards) from distress.

PA 436 has several key differences from its recent predecessor; local boards have the option of removing the financial emergency manager after 18 months, the state must pay the costs of emergency managers, and finally, localities are given options besides an emergency manager that they had previously not been granted. These options include filing for bankruptcy, entering into a consent agreement, choosing an emergency manager, or having a neutral third party evaluation. Local elected officials are given the right to choose between these options. However, the powers which emergency managers were given by the previous act remains intact. Equally important, the other three options have rarely been chosen, and when chosen, are in small municipalities. The scope of this study focuses on the municipalities with emergency managers appointed, while the municipalities that opt for the other three options are also discussed as part of the context.

Emergency financial management in Michigan is controversial because of its drastic effect on the municipal political landscape. Some criticize it as a blatant power grab, seeking to expand gubernatorial powers at the expense of local elected officials. These same sources have been quick to label the law as a direct affront to democracy, and even dictatorial. Others argue that the bill provides necessary oversight to clearly struggling municipalities and school districts where local elected officials have either proven incapable, or unwilling to 'right the ship'. Through this study, we focus on the implementation of PA 436, and intend to understand the implementation process of PA 436, specifically the different perceptions of the state intervention between state and local officials. We argue that state government takes the top-down approach to implementation that focuses on balancing the budgets in fiscally distressed municipalities, whereas local officials use a bottom-up approach that incorporates external stakeholders and considers the long-term consequences of fiscal intervention. Our qualitative analysis using interviews and content analysis suggests that state government fails to meet the conditions necessary for a successful top-down implementation. Synthesizing the top-down and bottom-up approach, we then recommend a more collaborative approach between the state and local governments, and a clearer objective of state intervention that focuses not only balancing the budget but also sustainable community development.

II. Theory & Hypothesis Development

Dynamics between State and Local Officials: Implementation Theory

As an integral stage of policy process, implementation is vital for policy effectiveness. At this stage, public managers play an important role, and have valuable insight of the impacts of the policy. In this study, we intend to open the black box of policy making of state intervention by examining how local officials, including bureaucrats and elected officials, view fiscal intervention, and identify the challenges and opportunities based on their experiences. We argue that the implementation of Michigan Emergency Management Law demonstrates the paradox between two implementation theories, top-down and bottom-up. In particular, state government holds the belief that policies should be implemented from top down, whereas local municipalities are supporters for the bottom-up approach. In this section, we review the literature related to the two approaches to policy implementation and their relevance to PA 436.

State's Perspective: Top-down implementation. Top-down implementation holds that there is clear separation between policy formulation and implementation. Policy, once formulated, is strictly an input in the implementation stage. The top-down approach starts with a policy decision (usually a statute) and then examines the actions needed in implementation (Sabatier 1986). Not only does policy formation precede policy implementation, it also decides the implementation. Implementation is a function of government decision, government management and oversight, and resulting execution by bureaucracy (Hill and Hupe 2009).

For top-downers, implementation is the ability to achieve predicted consequences after initial conditions (such as passing legislation and appropriating funds) have been met (Pressman and Wildavsky 1973). Sabatier and Mazmanian (1979) identify six conditions that they view as sufficient and necessary for effective policy implementation. Below we discuss how each condition is applied to the context of emergency management in Michigan. The six conditions and how they are applied to the context of PA 436 are also outlined in table 1.

[Table 1 here]

(1) Clear and consistent objectives are a necessary assumption for the top-down approach of implementation. These objectives provide a standard of implementation and evaluation to implementing officials (Van Meter and Van Horn 1975). The purpose of emergency management, according to PA 436, is to safeguard and assure the financial accountability of local governments, and to preserve the capacity of local governments for public service provision. By outlining policy intervention, PA 436 also suggests a **(2) causal theory** that state intervention, through financial monitoring and state authority for managing local fiscal affairs, can effectively address fiscal distress that local governments fail to resolve on their own. Intervention includes monitoring both financial operation and financial condition of local governments, and declaration of financial emergency when there are one or more conditions indicative of probable financial stress. The law also prescribes the powers of an emergency manager, and authorizes modification or termination of contracts. These details are part of the **(3) necessary legal procedures that** need to be in place in order to enhance compliance by implementing officials and target groups (Sabatier and Mazmanian 1980). Pressman and Wildavsky (1973) also highlight the importance of a variety of legal mechanisms to ensure successful implementation. Similarly, PA 436 provides for procedures to implement state intervention into local fiscal affairs, including review and appeal process, appointment, powers, and duties of an emergency manager, as well as the bankruptcy filing process.

The latter three factors that Sabatier (1986) classifies as the product of subsequent political and economic factors at the implementation stage. Top-downers recognize the unavoidable discretion of implementers as well as their **(4) commitment to policy objectives and skills** that is critical for successful implementation (Lipsky 1971). In the context of Michigan emergency management, state-appointed emergency managers are the implementers and are granted with almost unilateral power for local fiscal affairs. Emergency managers are driven to balance the local government budgets, and with the authority available they are able to cut costs that local officials find to be legally or politically infeasible. In addition to the implementer's commitment, **(5) support of interest groups** also plays a key role in implementation (Bardach 1977; Downs 1967). Van Meter and Van Horn (1975) acknowledge implementation encompasses those actions by public and private individuals or groups directed at the achievement of objectives set forth in prior policy decisions. Bardach (1977) further points out the importance of inter-organizational relationships in implementation. Viewing implementation as different types of games, Bardach contends that implementation is an assembly process that involves bargaining and coordination among numerous diverse and autonomous actors. Holding a top-down perspective, Bardach (1977) advocates for full follow-through to ensure successful implementation, such as day to day involvement of top officials in implementation, working to remove practical obstacles, influence appointments, and promote additional legislation when necessary. Under emergency financial management in Michigan, although the intervention is mainly carried out by emergency managers and their policy actions, local officials still play an important role in implementation. With a top-down approach, we expect emergency managers to follow through implementation by centralizing decision making to the extent possible so that local officials can only passively carry out emergency manager orders with little discretion. The last factor is **(6) changes in socio-economic conditions that support causal theory**. This calls for attention to factors confounding both causes for local fiscal distress and outcomes of state intervention.

Based on the top-down perspective, we hypothesize that:

H1: State government in the case of PA 436 will expect local officials' passive acceptance of the policy.

Specifically, state-appointed emergency managers, equipped with skills for local government management, will be committed to addressing local fiscal distress and enhancing the sustainability of service provision. They will also take into account local organizational and socioeconomic factors, and employ various measures, such as performance management, staffing, and oversight, in order to gain control of policy implementation.

Local's Perspective: Bottom-up implementation. A main criticism of the top-down approach to implementation is that it neglects strategic initiatives of other policy subsystems besides central decision makers (Hjern and Hull 1982). There are a multitude of governmental directives and actors, including street-level bureaucrats or local implementing officials. This criticism is particularly applicable to the context of the implementation of PA 436 that gives local officials more voice in addressing fiscal distress. A major difference between PA 436 and its predecessors (PA 72 and PA 4) is that, under PA 436, local governments can choose from four options (consent agreement, neutral evaluation process, bankruptcy, in addition to emergency manager that was the only option available under both PA 72 and PA 4). Although the policy is formulated at the state level and the state government (especially in the case of receivership where emergency managers are appointed) has great authority in fiscal affairs, any policy addressing fiscal distress will be implemented at the local level and involve interaction between state-appointed emergency managers and local elected officials and bureaucrats. Further, to achieve the strategic goal of addressing fiscal distress, multiple policies need to be made, and it is difficult to use the top-down approach to examine not only the interaction between various actors involved, but also the interactive effects between various policies without incorporating local actors into the policy making process.

Unlike the top-down approach that views policy as an input that drives implementation, the bottom-up approach views policy as an output of implementation that adapts to clients' needs. It starts by identifying the network of actors involved in service delivery, and incorporates their goals and strategies as part of the policy making process (Hjern and Porter 1981). It emphasizes discretion and the need to capitalize on it as a device for improving reliability and effectiveness of policies, and recognizes reciprocal nature of authority relations – formal authority travel from top to bottom of organizations, but informal authority derived from expertise, skill, and proximity to essential tasks that an organization performs travels in opposite direction (Elmore 1975). Bottom-up implementation is a decentralized process in which policy is determined by the bargaining between members of the organization and their clients (Elmore 1979; Stewart, Hedge, and Lester 2008). In other words, the bottom-up approach recognizes individual agencies involved in the implementation network as relevant units that need to be incorporated to achieve policy success (Thompson 2000). With this approach, the focus is shifted from the state to the local officials, not only their skills of local government management, but also the experience interacting with local residents. Local officials are viewed as the contact point through which constituents' needs and demands are funneled into the policy making process of state intervention.

This decentralized approach to implementation has the advantage of allowing more input not only from lower-level public servants that have a good deal of administrative discretion (Lipsky 1980; Hjern and Porter 1981), but also from external stakeholders. If the top-down approach ensures process control of policymakers, the bottom-up approach provides a means of democratic control (deLeon 1995; Gruber 1987). Incorporating external stakeholder input into the policy-making process also enhances responsiveness to local constituents' needs and demands, and gives stakeholders a sense of "ownership" of the policy that contributes to successful implementation (Long and Franklin 2004). Under PA 436, a bottom-up approach would enable local officials to engage in the decision making regarding the strategies of addressing fiscal distress, and would also enhance accountability by establishing a mechanism that invites feedback from local constituents.

In short, the bottom-up approach calls for attention to implementers and stakeholders at the local level, including both local officials and local residents. Specifically, we hypothesize local officials involved in PA 436 will argue for more attention to local constituents' needs. In addition, we hypothesize:

H2: Elected officials and technical bureaucrats will have different emphases on PA 436. Elected officials will focus more on the accountability to local voters of actions taken by emergency managers, whereas bureaucrats will pay more attention to the emergency managers' competence and professionalism.

III. Data and Methods

We use qualitative case evidence of the municipalities under PA 436 to test the hypotheses discussed in section II. The qualitative data were collected from interviews with both state and local officials, preliminary reviews of municipal fiscal condition based on which the state government decided to intervene, and orders issued by emergency managers in each municipality.

Municipalities were not selected randomly and are not representative of all municipalities in Michigan. They are fiscally distressed cities identified under PA 436 and have been intervened by the state. We acknowledge the limitation of case studies or studies with smaller N (O'Toole 2000); however, the population of the interest of this study consists of only 13 municipalities, and we conducted interviews on nine municipalities (four municipalities did not respond to our requests after we followed up twice for each municipality). Further, an in-depth qualitative analysis is beneficial for gaining understanding of local officials' perceptions as it provides a picture of the implementation stage, which is greatly shaped by political actors' perceptions and interactions.

Multiple data sources enhance the validity of our study through triangulation, and the results presented are based on the convergence of these sources (Yin 1994). Our primary data sources include interviews with local elected officials and public managers, preliminary reviews of local financial conditions issued by the State of Michigan, and emergency manager orders. We contacted local elected officials and public managers via emails, and conducted half-hour semi-structured phone interviews. In total, we interviewed 15 local officials from nine municipalities; six bureaucrats or managers and nine elected officials. To ensure accuracy, we also looked up policy actions mentioned in the interviews in budgets and financial statements. We also interviewed four state officials who are in charge of implementing PA 436. Unfortunately, we were unable to interview with emergency managers by the time this manuscript was written.

We recorded and transcribed all interviews. We used QDA Miner, a software program for qualitative research, to analyze the qualitative data including interview transcriptions, preliminary reviews, and emergency orders. QDA Miner allows for a hierarchical coding system (Gahan and Hannibal 1998), inter-coder agreement, and modification of the coding protocol to facilitate the interaction of hypotheses and evidence. We first developed coding structure based on the hypotheses; as codes were established, two coders then started coding all interview transcriptions separately. A coder agreement was reached after each coder completed coding. The following section reports our findings.

Results

Our findings show that both the policy process and actions of PA 436 indicate different approaches to its implementation, that is, the top-down approach taken by the state government in contrast of the bottom-up approach taken by the local officials. This section compares and discusses the conflicts between these two approaches.

1. Conflicts in Process

State monitoring and intervention. The first step when discussing the State of Michigan's approach to local government finance is to examine the decision making process within the state government. Two bureaus within the Treasury Department are responsible for implementing PA 436: the Bureau of Local Government Services that is responsible for the review of financial audits, and the 'nuts and bolts' of the State's local governments, and the Office of Fiscal Responsibility deals directly with financially distressed municipalities. When the state legislature passed PA 436 after the electorate voted down PA 4, the state legislature created the Office of Fiscal Responsibility as a way to show they were receptive to the public's wishes. However, it is important to note that the Office of Fiscal Responsibility has no regulatory authority to enforce state laws. In interviews with State Treasury Department officials, they clearly viewed themselves as removed from the monitoring process when it pertains to local community finances. The State of Michigan collects yearly audits from each municipality. The municipalities who have budget deficits are placed on 'watch' by the State Treasury Department, and are required to file a deficit elimination plan with the department. However, the State Treasury Department does not play any role in this deficit elimination plan, nor does it reach out to provide assistance to any municipalities prior to their entering the emergency manager act.

Essentially, the Office of Fiscal Responsibility is a political façade meant to console voters who decided that Public Act 4 was too far-reaching and totalitarian. The lack of actual regulatory power essentially relegates the Office of Fiscal Responsibility to the role of Emergency Manager support staff. One noteworthy sentiment gleaned from personal interviews is that, although the State Treasury Department has provided assistance to local government offices in the past, none of these suggestions was followed by the local government unit. Before PA 436, there was also lack of capacity – in terms of both labor and qualification – to effectively address local fiscal distress at the state level, as the interview with a State Treasury Department official reveals. This disconnect contributes to the power granted to state-appointed emergency managers so that the implementation of the intervention can be carried out by what the state views as capable personnel.

Indeed, Treasury officials view the Emergency Manager Law as a success. The Treasury Department is not concerned with the long-term effects of interventions; rather, their focus is on the short-term balance of the budget that is also indicated by the short period of eighteen months that the State allows for interventions. Another key aspect of the State of Michigan's EM policy is their view of cities. By removing all forms of local control, and placing one Emergency Manager in charge of all decisions for a municipality, it is clear that the State believes the local officials are a major cause of the problem. One Treasury official went so far as to highlight the story of "smart" city residents leaving struggling cities, leading to a diminished pool of elected official candidates, ultimately resulting in mismanaged cities. Treasury's approach in the intervention process only highlights this belief. By charging one department to manage the budget of a city, equipped with the complete power to restructure city finances, the result is an intervention policy that focuses on budget mismanagement, and therefore budget solutions. Both the short-term, financial focus of intervention and the state's view of local governments promote the adoption of the top-down implementation of state intervention.

Our interviews with local officials confirm the state's focus, and identify characteristics of emergency management in Michigan: centralized decision making at the emergency manager's level and the additional authority vested in the managers. They are discussed below.

Centralized decision-making. Authorized to make policies encompassing almost every aspect of municipal affairs, emergency managers put in place a centralized decision making structure. On one hand, such structure enhanced efficiency of government operation; several bureaucrats acknowledged that emergency managers "made my life easier" because the centralized structure allowed them to simplify paperwork, bypass council approval, and streamline operations. The bureaucrats responsible for public safety functions specifically preferred centralized decision making because it facilitated the decision making of time-sensitive matters. For example, in one municipality the emergency manager eliminated a Public Safety Commission appointed by mayor, city council, fire, and police department. It streamlined the budgetary process because the fire chief only needed emergency manager's approval for purchase authorization, but it also eliminated a platform to gather feedback about public safety needs and deepen understanding of community demands. On the other hand, the state government believed mismanagement and even corruption in local governments are reasons for fiscal distress, and a centralized decision-making enables the state government to establish a more efficient managerial system.

However, lack of democracy is a common criticism of the centralized decision making process. Local officials expressed concerns about the power of voiding contracts, and perceived the change of contract by emergency managers to be unilateral. Local officials, especially elected officials, viewed centralized decision making as a way to undermine democracy by depriving voters and their representatives of their voice. "Dictatorship" was often used during our interviews to describe the decision making process. Another related issue is the lack of transparency; in the centralized structure, both elected officials and bureaucrats were no longer able to participate in the decision making process or to understand why and how certain policies were made. In one municipality, the emergency manager suspended all staff in the Downtown Development Agency without notifying the members affected. The unilateral decision making top down from the emergency manager created tension with local officials, who hold the view that the emergency manager jeopardized democracy and compromised residents' well-being by making decisions without local input.

Consistent with the lack of transparency and democracy is the lack of communication and engagement between emergency managers and local policy makers, including elected officials and bureaucrats. Many local officials described the emergency managers appointed to their municipalities as arrogant. The tension heightened when the emergency managers blamed the local governments for the fiscal distress they were in. A local official indicated, "They [emergency managers] said you are dysfunctional and you are incompetent. They said that in every letter." The disrespect for local management by emergency managers imposed additional obstacles to create a collaborative culture for the emergency manager and local officials to work together.

Additional authority. Many local officials held favorable view of the additional authority brought by emergency managers as it lent support to push through some actions that helped mitigate fiscal distress but were politically unpopular. For example, two municipalities increased their property tax mileage rates under emergency managers' leadership. The city councils of both municipalities made proposals for millage increases before emergency management but local voters disapproved the increases. Local officials viewed it to be beneficial that the emergency managers later passed millage rate increases. In their view, the authority granted by the state played an important role for passing the millage increases; specifically, the fact that emergency managers were appointed by a Republican governor provided legitimacy for tax increases and highlighted the necessity of raising revenue. Although the revenues generated from millage increases were earmarked for police and fire services, the municipal governments were able to use the revenues freed up from the general funds that were previously used for police and fire to support other services.

Because of the fact that emergency managers were appointed by the State, local officials also expected emergency managers to be politically neutral to local politics, and to make policies insulated from local political influences. As some local officials put it, “it [emergency management] takes the politics straight out of it;” these officials understood the need to have a state-appointed manager to “circumvent the political scene.” Different from local elected officials who focused more on the political aspect of municipal management, bureaucrats paid more attention to operational efficiency and expertise that emergency managers could bring to the municipalities. A few bureaucrats shared their high expectations for emergency managers and their expertise as outsiders that was otherwise unavailable at the local level.

However, our interviews revealed more disappointment about the expertise brought by emergency managers. In the views of local bureaucrats, emergency managers did not necessarily have the training or experience to operate a municipality, and they focused on only the financial aspect rather than taking a holistic approach to examining various aspects of local management. Local bureaucrats emphasized the importance of understanding issues that were specific to local contexts, as well as policy actions that were customized to unique local conditions. Although some bureaucrats we interviewed believed that they could help emergency managers better understand local issues, they were frustrated by the lack of knowledge exchange between them and the emergency managers due to the lack of engagement as discussed above.

Political neutrality did not take place in some municipalities. Here, local officials believed their emergency managers took side with certain council members; as such, the local officials viewed the personnel decisions made by emergency managers to be political and personal. They also viewed certain emergency manager appointment as an act of patronage, because "(the name of an emergency manager) was hired because he/she was good buds with our former emergency financial manager." In short, although outsider expertise coupled with authority granted by the state made theoretical sense, in reality policy implementation is more complex than its original policy design.

2. Conflicts in Policy Action

Although increasing revenue and reducing spending can both address deficits, our interviews indicate that spending cuts were a more common approach adopted by emergency managers. These cost-cutting actions were made unilaterally by emergency managers with little engagement with local officials. The following section discusses major policy actions taken by the municipalities we interviewed under emergency manager leadership. Our interviews illustrate a sharp contrast between emergency managers' perceptions and local officials' views about these actions. Emergency managers took a top-down perspective and focused on spending cuts as a policy goal, whereas local officials, concerned about local constituents' needs, paid more attention to long-term sustainability of service delivery. The top-down approach is also manifested in specific actions taken by emergency managers, as discussed below.

Layoff with wage and benefit reduction. Our interviews and review of municipal budgets indicate that more than half of the municipalities reduced staffing by layoff and hiring freeze in order to cut back on labor costs. With the additional authority granted by the State of Michigan, emergency managers renegotiated contracts with local unions and implemented reduction in employees' pensions and retirees' health care. In one municipality, the emergency manager imposed the same health care reduction plan that the city council failed to persuade the local union to accept. Such a major cut was controversial. As indicated in emergency manager orders, these cuts were not only critical for cost-saving but also beneficial for enhancing organizational efficiency. Indeed, from a purely financial focus of state's top-down implementation, an effective way to close the budget gap is to reduce spending, and labor and legacy costs were great burdens in almost every municipality under PA 436. Some local officials also acknowledged that as a major expenditure, reduction in wage and benefits are inevitable steps in balancing the budget. One local elected official implied that high labor costs were due to police officers taking advantage of overtime to get higher pay, and thus the authority vested in the emergency manager was advantageous in contract negotiation.

However, more local officials criticized the focus on finance as "corporate mentality." That is, although the cost saving actions taken by emergency managers balanced the budgets, local officials were more concerned about long-term impacts on the aspects that are not reflected in financial statements, such as morale of public servants and talent attraction and retention. In general, most local officials share the notion that cutting services is not sustainable in the long run because it does not revitalize communities or create economic opportunities. Specifically, the cutback of employee compensation including wages, health care, and pensions imposed great obstacles in attracting talents to the public sector, created high turnover, and resulted in low morale of current employees. Three municipalities shared with us the difficulty of hiring qualified police officers due to their department having uncompetitive compensation relative to neighboring municipalities. Reductions in service resulted in emigration of residents and businesses and further weakened the local economic base. Local officials' concerns confirm our hypothesis that with the bottom-up approach, local officials provide policy inputs that incorporate external stakeholders' interests such as local residents' long-term welfare.

Privatization. Contracting out public services is another common measure for cost saving taken by emergency managers. Services that are contracted out include building inspection, landscaping, parks and recreation, trash pickup, solid waste management, road maintenance, and emergency services such as ambulances. The savings from privatization mainly comes from labor costs; the government, once outsourced the service, was no longer directly responsible for the workers' salary and benefits. In addition, some local bureaucrats perceive privatization as an effective way to provide specialized services to the local community. A municipality contracted out its property assessment function in the belief that the contractor has the expertise that the government does not have to perform the function in house.

The major criticism about privatization is lack of accountability to local constituents. A bureaucrat in charge of parks and recreation programs viewed the services provided by the contractor to be profit-driven and misaligned with community needs. Despite the intention of cost saving, a mayor believed the private company to which the city contracted out public works was "robbing us blind" and thus privatization was more costly and less efficient than in-house service production. A council member from another municipality questioned the fairness and transparency of the request for proposal process, and even suspected conflicts of interest between emergency managers and contractors who won the bidding.

Consolidation and restructuring. In addition, departmental consolidation and restructuring were used to save costs and streamline government operations. However, the concern at the local level lies in compromised service quality. In one municipality, police and fire departments were merged into a public safety division. Although consolidation brought savings through staff reduction, it also created inefficiency because the workforce was not cross-trained and did not have expertise to perform their new functions after consolidation.

There was also interlocal consolidation under emergency management. For example, an emergency manager merged the police department with a neighboring municipality. In one municipality, the emergency manager eliminated the entire fire department, and solely relied on neighboring cities and townships to respond the fires within its own jurisdiction. Although the elimination of fire department achieved great saving in labor, health care cost, and facility maintenance, this action actually passed the financial burden onto neighboring municipalities, and gave up any control the municipality had over service effectiveness and responsiveness. Local officials expressed concern about jeopardizing the well-established collaborative relationship with its neighbors, as well as the capability of responding to local fires in the long term.

State aids or loans. Although emergency intervention facilitated cuts and restructuring, there is a sharp contrast between local officials' perception and emergency managers' reports when it comes to revenue enhancement and economic development. A common criticism from local officials about Michigan emergency management is the lack of revenue for economic development. Many local officials believed that the governments "need to spend money to make money," and would expect the state government, through emergency management, to provide funding for economic development to enhance a municipality's tax base and attract investments. However, all local officials we interviewed indicated a lack of state support for economic development, and revenue enhancement efforts made by emergency managers were limited.

When asked about the causes of fiscal distress in local communities, most local officials indicated weakening economic base, such as loss of population, a sluggish job market, and declining property values, as key reasons for the financial struggle. As such, they looked forward to state assistance for economic development that could potentially help strengthen local their economic base and foster sustainable community development. They were disappointed by the short-term, deficit-driven focus of emergency managers, who in their views balanced the budget by cutting services and labor costs instead of generating reliable revenue sources. Two local officials from two municipalities described it as "putting a Band-Aid on a wound" without prescribing solutions for a cure. Many local officials believed the emergency managers ignored the root causes of fiscal distress, and instead focused only short-term financial results. On the other hand, emergency manager orders as well as the managers' letters to the Governor indicated efforts to enhance revenue through economic development, grant applications, and millage rate increases.

The choice of revenue enhancements also indicates the short-term focus of emergency managers. A few municipalities received state grants to support public safety, parks and recreation, and infrastructure maintenance. In addition, a "fiscally distressed city, township, village grant" was also available. However, local officials indicated that the amount was not sufficient to make up the revenue shortfall resulted from the decline in state revenue sharing. In fact, based on our review of comprehensive financial reports, only two municipalities received grants, one for a year and the other for three years, when they were under state intervention. Compared to grants, loans were a more common tool to close budget deficit. However, in local officials' views, loans are not an effective way to address long-term structural deficit. Although loans help balance the budget in the short term, they were not a sustainable revenue source and in some cases even created additional transaction costs such as interest expense and administrative costs. Other revenue enhancement efforts included sales of government assets and providing additional services for user fees. Interestingly, although local officials viewed these efforts to be minimal and inadequate, the emergency orders stressed their important roles in addressing budget deficits.

In short, compared to emergency managers whose goal was to address budget deficit in the short-term (usually within the time frame of receivership), local officials were more concerned about longer-term impacts that go beyond municipal finances, such as sustainability of service delivery and employee morale. This is consistent with our hypothesis that, whereas state-appointed emergency managers took a top-down approach to implementation and focused more on the policy goal of PA 436, i.e., addressing fiscal distress, local officials shaped the policy by emphasizing long-term impacts that go beyond local finances.

Discussion and Implication

Our analysis shows that although the state government uses the top-down approach to implement the intervention of local fiscal affairs, it fails to meet the six conditions laid out by the top-down theorist. Table 1 outlines how the six conditions are applied to the implementation of state intervention in Michigan. Based on our study, we suggest that the top-down approach is not suitable for the implementation of PA 436 for two reasons. First, although having clear and consistent policy objectives is a necessary condition for successful top-down implementation (Sabatier and Mazamanian 1979; Van Meter and Van Horn 1975), this is challenging for the implementation of PA 436. The broad goal of addressing fiscal distress in fact includes multiple objectives that go beyond the budgetary and financial focus of the state government. There are various aspects of financial conditions; defined as a local government's capability to meet financial and service obligations (Hendrick 2011), a sustainable financial condition includes aspects of cash solvency, budgetary solvency, service solvency, and long-term solvency (Groves, Valente, and Nollenberger 2003). Although the state's focus of balancing the budget in the short-term is important, the objective of restoring local financial condition goes beyond closing deficits and encompasses other longer-term, broader goals that emergency managers did not take into account. Further, the ultimate goal of addressing fiscal distress is to ensure the local government's ability to provide local community with quality services; the financial focus should be considered as the means to this end, instead of the end itself.

Second, given the broad scope of financial condition and its impacts on local residents' well-being, it is important to take a more inclusive approach by incorporating inputs from local communities – including local officials and residents – into the policy implementation process. The unilateral decision making by emergency managers, although perhaps effective in the short run to bypass certain procedures to raise revenue or cut spending, violates the principle of representative bureaucracy and fails to take the advantage of decentralized government as a mechanism to enhance responsiveness to local demands. Even within the framework of the top-down approach, it is essential to gain support of interest groups for successful implementation (Bardach 1977; Downs 1967).

Therefore, the causal theory that by taking over local fiscal affairs, the state government can address fiscal distress does not hold, because by focusing on only the internal financial management practices, the state government overlooks underlying socio-economic conditions that result in fiscal distress. In addition, although emergency managers have financial management skills (because this is the skill most essential based on the causal theory), they do not always have experience of working in local governments or the management skills that go beyond the financial realm. Coupled with the lack of support of local officials and residents, the state intervention is unlikely to achieve its goal.

There are limitations to the bottom-up approach as well. By arguing for the control of implementers over policy, a bottom-up approach overlooks the principle that policy control should be exercised by actors whose power is derived from their accountability to voters. The autonomy of policy implementation can also lead to policies different from those envisioned by policymakers. Although the common criticism of state intervention is that it shifts the accountability from local voters to the state governor, one factor that criticizers often overlook is that local governments are creature of the state, and the state government is ultimately accountable to local voters as well. The state government has the constitutional right to intervene and address local affairs when local governments struggle fiscally. As our interviews reveal, some local officials not only expected but also welcomed such intervention; their disappointment and frustration are concerned with the logistics of intervention, instead of the intervention itself. The design of PA 436 intends to assist local governments with more expertise and authority provided by the state; as pointed out by state officials, without power granted to emergency managers, there have been incidents of local mismanagement or negligence of state's financial monitoring. We believe the state's involvement of local fiscal affairs can be beneficial if managed correctly.

Finally, our recommendation for improving the implementation of state intervention is grounded on the synthesis of the top-down and bottom-up approach. There is common ground of the two approaches to implementation. They both emphasize clarity and consistency of policy goals, resource availability, and coalition building through leadership and engagement. In particular, according to the ambiguity-conflict model (Matland 1995), to implement policies that are ambiguous and tend to trigger conflicts, it is important to form coalition at the local level, and implement the bottom-up approach with professionals defining ambiguous goals along the implementation process. The state's intervention of local fiscal affairs has broad scope that often results in ambiguous goals if without clarification from policy makers. The intervention, especially when implemented top down, can also be viewed by local officials as compromise of local autonomy, and such perception can bring resistance and conflict as well. Therefore, we believe that the state intervention would be more effective if state and local officials collaborate, incorporate inputs from various stakeholders, and identify both managerial and structural factors that contribute to local fiscal distress. It is also vital that emergency managers are equipped with not only financial management skills but also expertise of local government management.

Table 1: Application of Six Conditions of Top-Down Implementation to PA 436

	Conditions	PA 436 Context
Ability of Statute to Structure Implementation	Clear and consistent objectives	Eliminate deficits
	Adequate causal theory	By taking over local fiscal affairs, the state government can address fiscal distress.
	Implementation process legally structured to enhance compliance by implementers and target groups	State-appointed emergency managers are granted authority to manage municipal fiscal affairs
Non-statutory variables Affecting implementation	Committed and skillful implementers	Emergency managers have financial management skills, but not always have local government management skills.
	Support of interest groups	Receive criticism and suspicion by local officials. Although some local officials were supportive initially, they were quickly disappointed and frustrated by the fact that they were not included in the decision-making process, or by the lack of expertise of emergency managers.
	Changes in socio-economic conditions do not undermine political support or causal theory	Emergency managers overlook underlying socio-economic conditions that result in local fiscal distress.

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Informing the Debate

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